

Message Text

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SUBJECT: ECONOMIC SITREP NO. 24, FRIDAY, DECEMBER 3

REF: ROME 19710

1. SUMMARY. THIRD ROUND LABOR AND INDUSTRY MEETINGS INCONCLUSIVE WITH NEXT MEETING FIXED FOR DECEMBER 13. SENATE PASSES PARTIAL COST-OF-LIVING ESCALATOR FREEZE REDUCING APPLICABLE TIME PERIOD TO FIVE QUARTERS BUT CHANGING LITTLE ELSE. CHAMBER OF DEPUTIES MUST NOW APPROVE IT BEFORE DECEMBER 10 DEADLINE WHEN DECREE LAW WOULD AUTOMATICALLY EXPIRE FAILING RATIFICATION BY BOTH CHAMBERS. PROCEEDS OF LIBYAN FIAT DEAL NOT LIKELY BE RECEIVED BEFORE LATTER PART OF JANUARY. LIRA APPRECIATES ON BLACK MARKET. OCTOBER INDUSTRIAL PRODUCTION INDEX UP 7.1 PERCENT OVER PREVIOUS YEAR. END SUMMARY.

2. THIRD ROUND OF LABOR AND INDUSTRY MEETINGS INCONCLUSIVE. THIRD MEETING BETWEEN UNION AND INDUSTRY CONFEDERATIONS TO REDUCE THE COST OF LABOR AND INCREASE PRODUCTIVITY TOOK PLACE DECEMBER 2. WHILE FULL-FLEDGED AGREEMENT WAS NOT EXPECTED TO EMERGE FROM MEETING, MORE CONCRETE EVIDENCE OF PROGRESS THAN IN FACT ISSUED FROM MEETING WAS PERHAPS HOPED FOR. NEXT MEETING IS SCHEDULED FOR DECEMBER 13, WHICH GOES BEYOND THE PRIMIN'S ONE-LIMITED OFFICIAL USE

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MONTH DEADLINE FOR SOME FORM OF AGREEMENT BETWEEN THE TWO.

THE IMPLIED GOI THREAT WAS THAT OF NO AGREEMENT AS FORTHCOMING BY THAT PERIOD, THE GOVERNMENT WOULD PROPOSE ITS OWN PROGRAM. WHILE POSITIVE SIGNS, MOSTLY SEMANTICAL, DID EMANATE FROM THIS MOST RECENT THE LABOR/INDUSTRY MEETINGS, IT DOES NOT LOOK LIKE THE LABOR CONFEDERATION LEADERS WILL HAVE ANYTHING CONCRETE TO OFFER ANDREOTTI BEFORE HIS US TRIP. THE PRIMIN MAY, INSTEAD, INFORM LABOR LEADERS AT DECEMBER 4 MEETING OF THE MEASURES TO BE TAKEN IN DEFAULT OF A LABOR/INDUSTRY AGREEMENT. A HIGH-LEVEL OFFICIAL OF CONFINDUSTRIA INDICATED TO EMBOFF THAT LACK OF AGREEMENT AT THIS STAGE WAS ENTIRELY EXPECTED SINCE ISSUES AT HAND WERE EXTREMELY DIFFICULT TO NEGOTIATE. HE ANTICIPATED, ON THE OTHER HAND, THAT GOI PARTIAL FREEZE OF THE WAGE COST-OF-LIVING ESCALATOR WOULD BE ENACTED AND GO INTO EFFECT.

3. PARTIAL FREEZE OF COST-OF-LIVING ESCALATOR PASSES SENATE. SENATE PASSED EVENING OF DECEMBER 2 PARTIAL FREEZE OF AUTOMATIC COST-OF-LIVING WAGE ESCALATOR WHICH WAS SENT TO PARLIAMENT BY GOVERNMENT AS DECREE LAW ON OCTOBER 11. FREEZE SURVIVED WITH FEWER AMENDMENTS THAN ANTICIPATED BUT MUST STILL PASS CHAMBER OF DEPUTIES BEFORE RATIFICATION DEADLINE OF DECEMBER 10. MOST IMPORTANT FLOOR AMENDMENT REDUCED PROPOSED TWO-YEAR DURATION OF FREEZE TO FIVE QUARTERS; I.E., FREEZE WOULD INITIALLY AFFECT NEW POINTS WHICH WOULD BE APPLIED ON FEBRUARY 1, 1977 AND LASTLY AFFECT THOSE TO BE APPLIED BEGINNING MAY 1, 1977 AND LASTLY AFFECT THOSE TO BE APPLIED BEGINNING MAY 1, 1978. FLOOR OF INCOME LEVELS REMAINED AS GOVERNMENT HAD PROPOSED (6 MILLION LIRE FOR 50 PERCENT FREEZE AND 8 MILLION FOR 100 PERCENT FREEZE) AS DID COMPUTATION OF INCOME FOR APPLICABILITY OF FREEZE; I.E., NET OF AMILY ALLOWANCES, INSURANCE AND PENSION PAYMENTS, BUT GROSS OF INCOME TAXES. ANOTHER AMENDMENT EXTENDED THE APPLICABILITY OF FREEZE TO INCREASES IN PAMENTS FOR THOSE PROFESSIONAL SERVICES WHICH ARE LINKED TO COST-OF-LIVING ESCALATOR INCREASES (E.G., PROFESSIONALS EMPLOYED BY INSTITUTIONS). PRESS PLAY WAS RELATIVELY MILD WITH TEXT OF STORIES NOTING THAT SOME AMENDMENTS PROPOSED BY LEFT FAILED PASSAGE BECAUSE OF ABSENCE OF ABOUT HALF OF PCI SENATORS AT TIME VOTE TAKEN. CHAMBER OF DEPUTIES MUST ACT ON DECREE LAW BY DECEMBER 10 OR DECREE AUTOMATICALLY EXPIRES.

4. SOME AFTER-SHOCKS OF FIAT-LIBYA DEAL. BANK OF ITALY (BOI) LIMITED OFFICIAL USE

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SOURCE INDICATES THAT FOREIGN EXCHANGE RECEIPTS FROM LIBYAN-FIAT DEAL NOT LIKELY TO BE RECEIVED BEFORE LATE JANUARY. HOW PROCEEDS OF \$104 BILLION LOAN PART OF TOTAL PACKAGE WILL BE HANDLED IS AT PRESENT STILL UNDETERMINED. (SEE ROME 11722.)

5. MONEY MARKETS. DECEMBER 3 LIRA/DOLLAR RATE 865.45 ON NORMAL VOLUME COMPARED TO 865.475 ON DECEMBER 2. THE LIRA APPRECIATED NOTABLY ON THE BLACK MARKET THIS WEEK. THE APREAD BETWEEN THE

OFFICIAL DOLLAR/LIRA RATE AND THE RATE IN THE "PARALLEL MARKET" IN SWITZERLAND NARROWED TO WITHIN ABOUT 10 LIRE ON DECEMBER 1. AT TIMES THIS SUMMER THE APREAD REACHED 130 LIRE; MORE RECENTLY IT HAS HOVERED AROUND 30 LIRE. THE NARROWING OF THE SPREAD THIS WEEK IS THOUGHT TO BE CAUSED BY ITALIANS' USING THIS CHANNEL IN ADDITION TO THE OFFICIAL ONES FOR REPATRIATING ILLEGALLY EXPORTED CAPITAL UNDER THE AMNESTY, WHICH EXPIRES TODAY, DECEMBER 3 (SEE ROME 11722 AND 11721).

6. STOCK EXCHANGE. ON DECEMBER 2 THE MARKET REACTED SHARPLY TO THE FIAT AFFAIR, CLOSING 2.59 PERCENT HIGHER ON VERY HIGH TURNOVER, I.E., 2 TO 2 1/2 TIMES THE AVERAGE VOLUME OF RECENT DAYS. FIAT GROUP SHARES ROSE ABOUT 20 PERCENT.

7. OCTOBER INDUSTRIAL PRODUCTION UP 7.1 PERCENT. JUST-RELEASED UNADJUSTED INDUSTRIAL PRODUCTION INDEX (134.7) SHOWS A 7.1 PERCENT INCREASE OVER THE SAME MONTH IN 1975 AND AN AVERAGE INCREASE JANUARY THROUGH OCTOBER OF 10.4 PERCENT COMPARED TO THE SAME PERIOD IN 1975. WHILE STATISTICALLY THE RATE OF INCREASE APPEARS TO BE SLACKENING, IT SHOULD BE BORNE IN MIND THAT ITALY BEGAN ITS RECOVERY FROM THE RECESSION IN THE FOURTH QUARTER OF 1975. VOLPE

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